

SALEM CITY CORPORATION

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2005

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CERTIFIED PUBLIC ACCOUNTANTS
A PROFESSIONAL CORPORATION

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INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and City Council
Salem City Corporation
Salem, UT

November 15, 2005

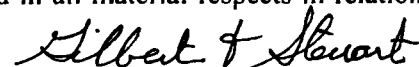
We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Salem City Corporation (City) as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, ISSUED BY THE Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Salem City Corporation as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages 2 through 8 are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Salem City Corporation's basic financial statements. The combining and individual non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual non-major fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.



GILBERT & STEWART
Certified Public Accountants

SALEM CITY CORPORATION

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MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of Salem City, we offer readers of Salem City's financial statements this narrative overview and analysis of the financial activities of Salem City for the fiscal year ended June 30, 2005. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal.

Financial Highlights

- The total net assets of Salem City are \$16,558,489 at June 30, 2005 are compared to \$15,923,089 for the prior year.
- At the end of the current fiscal year, Salem City's governmental funds reported combined ending fund balances of \$6,450,020. Of this amount \$130,757 is available for spending at the government's discretion (unreserved fund balance).

Reporting the City as a Whole

This discussion and analysis is intended to serve as an introduction to Salem City's basic financial statements. Salem City's basic financial statements comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

The government-wide financial statements are designed to provide readers with a broad overview of Salem City's finances, in a manner similar to a private-sector business.

- *The statement of net assets* presents information on all of Salem City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether or not the financial position of Salem City is improving or deteriorating. However, you will also need to consider other nonfinancial factors.
- *The statement of activities* presents information showing how the city's net assets changed during the fiscal year reported. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

Both of the government-wide financial statements distinguish functions of Salem City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities).

The government-wide financial statements can be found on pages 9 and 10 of this report.

Reporting the City's Most Significant Funds

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Salem City also uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the city can be divided into three categories: governmental funds, proprietary funds, and Fiduciary Funds.

- *Governmental Funds* – These funds are used to account for the same functions reported as governmental activities in the government-wide financial statements. These fund statements focus on how money flows into and out of these funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps users determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation included with the fund financial statements.

The governmental fund financial statements can be found on pages 11 through 15 of this report.

The major governmental funds (as determined by generally accepted accounting principles) are the General Fund and Special Revenue Fund. The balance of the governmental funds is determined to be non major and is included in the combined statements within this report.

- *Proprietary Funds* – Salem City maintains two type of proprietary fund.
 - *Enterprise Funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. Salem City uses enterprise funds to account for its Water, Sewer, Electric, and Solid Waste.
 - *Internal Service Funds* – are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City on a cost-reimbursement basis. The internal service funds consist of a Motor Pool Fund and a Data Processing Fund.

The basic proprietary fund financial statements can be found on pages 16 through 19 of this report.

- *Fiduciary Funds* – Salem City maintains one type of Fiduciary Fund. Trust Funds are used to account for assets held by the City as trustee for individuals. The City has one trust fund for Cemetery Perpetual Care. This is a trust fund used to account for monies received for the perpetual care of cemetery lots.

The basic fiduciary funds financial statements can be found on pages 43 and 44 of this report.

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of Salem City, assets exceeded liabilities by \$15,923,089.

The largest portion of Salem City's net assets reflects its investment in capital assets (e.g., land, building, infrastructure assets, and machinery and equipment); less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The following table summarizes the City's net assets.

Salem City's Net Assets

	Governmental Activities		Business – Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Current and other assets	\$ 885,729	\$ 605,641	\$ 1,893,849	\$ 2,178,415	\$ 2,779,578	\$ 2,784,056
Capital assets	6,954,054	7,030,227	12,756,209	12,460,398	19,710,263	19,490,625
Total Assets	<u>7,839,783</u>	<u>7,635,868</u>	<u>14,650,058</u>	<u>14,638,813</u>	<u>22,489,841</u>	<u>22,274,681</u>
Long-term debt outstanding	769,821	819,676	3,807,861	4,352,368	4,577,682	5,172,044
Other liabilities	619,942	415,928	733,728	763,620	1,353,670	1,179,548
Total Liabilities	<u>1,389,763</u>	<u>1,235,604</u>	<u>4,541,589</u>	<u>5,115,988</u>	<u>5,931,352</u>	<u>6,351,592</u>
Net assets						
Invested in capital assets, - net of related debt	6,077,265	6,167,227	8,420,348	7,605,030	14,477,618	13,772,257
Restricted	221,403	197,322	574,948	654,133	796,351	851,455
Reserved	20,595				20,595	
Unrestricted	130,757	35,715	1,113,173	1,263,662	1,263,925	1,299,377
Total net assets	<u>\$ 6,450,020</u>	<u>\$ 6,400,264</u>	<u>\$ 10,108,469</u>	<u>\$ 9,522,825</u>	<u>\$ 16,558,489</u>	<u>\$ 15,923,089</u>

Government activities increased Salem City's net assets by \$49,756, thereby accounting for 8% of the total growth in the net assets of Salem City. The elements of this increase are as follows:

Salem City's Changes in Net Assets

	Governmental Activities		Business - Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Revenues						
Program Revenues:						
Charges for services	\$ 898,308	\$ 968,685	\$ 3,003,937	\$ 2,885,046	\$ 3,902,245	\$ 3,853,731
Operation grants and contributions	246,496	366,890	-	-	246,496	366,890
Capital grants and contributions	240,831	278,721	663,641	819,265	904,472	1,097,986
General revenues:						
Property taxes	266,038	277,522	42,791	44,677	308,829	322,199
Other taxes	664,554	553,917	-	-	664,554	553,917
Other	5,720	7,119	13,895	21,676	19,615	28,795
Total revenues	<u>\$ 2,321,947</u>	<u>\$ 2,452,854</u>	<u>\$ 3,724,264</u>	<u>\$ 3,770,664</u>	<u>\$ 6,046,211</u>	<u>\$ 6,223,518</u>
Expenses:						
General government	\$ 553,568	\$ 487,014	\$ -	\$ -	\$ 553,568	\$ 487,014
Public Safety	652,809	563,739	-	-	652,809	563,739
Highways/streets	476,080	458,886	-	-	476,080	458,886
Parks & recreation	567,188	555,489	-	-	567,188	555,489
Interest on long term debt	43,783	55,609	-	-	43,783	55,609
Water	-	-	612,237	716,478	612,237	716,478
Sewer	-	-	462,930	515,206	462,930	515,206
Electric	-	-	1,816,425	1,671,613	1,816,425	1,671,613
Waste	-	-	210,102	190,648	210,102	190,648
Total Expense	<u>2,293,428</u>	<u>2,120,737</u>	<u>3,101,694</u>	<u>3,093,945</u>	<u>5,395,122</u>	<u>5,214,682</u>
Increase in net assets	<u>28,519</u>	<u>332,117</u>	<u>622,570</u>	<u>676,719</u>	<u>651,089</u>	<u>1,008,836</u>
Before transfers	<u>21,237</u>	<u>-</u>	<u>(21,237)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net increases in net assets	<u>49,756</u>	<u>332,117</u>	<u>601,333</u>	<u>676,719</u>	<u>651,089</u>	<u>1,008,836</u>
Net assets July 01, 2004	<u>6,400,264</u>	<u>6,068,147</u>	<u>9,507,136</u>	<u>8,846,106</u>	<u>15,907,400</u>	<u>14,914,253</u>
Net assets June 30, 2005	<u>\$ 6,450,020</u>	<u>\$ 6,400,264</u>	<u>\$ 10,108,469</u>	<u>\$ 9,522,825</u>	<u>\$ 16,558,489</u>	<u>\$ 15,923,089</u>

Financial Analysis of the Government's Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements.

At the end of the current fiscal year, the City's governmental funds reported combined fund balances of \$372,755. Of this total amount \$130,757 constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the general fund was \$15,698, while total fund balance reached \$257,696. As a measure of the general fund's liquidity, it may be useful to compare the total fund balance and total fund balance to total fund expenditures. The fund balance represents 12.44% of total general fund expenditures.

The city maintains enterprise funds to account for the business-type activities of the city. The information is found in the government-wide financial statements, but in more detail.

Unrestricted assets of the water, sewer, electrical, and solid waste at the end of the year amounted to \$1,055,994. The sewer fund upgraded much of the equipment in the sewer lagoons to account for the change in the unrestricted assets. Revenues and expenditures for normal operation remained fairly stable with some increases in both areas.

General Fund Budgetary Highlights

During the fiscal year, the General Fund's original budget was amended from an original budget expenses total of \$2,071,987 to a final budget of \$2,180,602, an increase of \$108,615. The increases can be briefly summarized as follows:

- \$ 5,750 miscellaneous increases in Central Staff expenditures
- \$13,700 increase in Professional and Technical expenditures
- \$ 3,000 increase in Public Works expenditures
- \$ 4,500 increase in Government Buildings expenditures
- \$ 3,100 increase in Police
- \$12,378 increase in Fire Department expenditures (Fire grant)
- \$12,389 increase in Ambulance expenditures (grant)
- \$ 1,700 increase in Emergency Management
- \$27,000 decrease in Highways & Public Improvements expenditures
(B&L Road Money)
- \$28,800 increase in Parks expenditures
- \$ 2,500 increase in Cemetery expenditures
- \$20,000 increase in Salem Athletic Association expenditures
- \$24,300 increase in Recreation expenditures

The increases in funding can be briefly summarized as follows:

- \$18,300 increase in Taxes
- \$23,500 increase in Licenses & Permits
- \$38,165 increase in Intergovernmental (Fire and Ambulance Grants)
- \$11,100 increase in Charges for Services
- \$ 4,000 increase in Fines & Forfeitures
- \$23,550 increase in Miscellaneous Revenue

Capital Asset and Debt Administration

Capital Asset for Salem City's investment in capital assets for its governmental and proprietary fund activities as of June 30, 2005, amounts to \$19,710,263 (net of accumulated depreciation). The investments in capital assets include land, buildings, improvements, machinery and equipment, and infrastructure. There was a total increase in the City's investment in fixed assets for the current year. The governmental activities had a decrease of (\$76,173) and business-type activities had a \$295,811 increase.

Major capital asset events during the current fiscal year include the following:

- Sewer lagoon equipment upgrade and improvements \$ 49,696
- Roads additions amounted to \$125,938
- Culinary Water additions amounted to \$ 34,893
- Sewer Line additions amounted to \$ 44,093
- Storm Water additions amounted to \$ 24,103
- Electrical additions amounted to \$ 66,244
- Pressure Irrigation additions amounted to \$ 6,931
- Culinary Water Well upgrade installed new pump \$111,558

Salem City's Capital Assets

	Governmental <u>Activities</u> <u>2005</u>	Business-Type <u>Activities</u> <u>2005</u>	<u>Total</u> <u>2005</u>
Land	\$ 278,794	\$ 112,895	\$ 391,689
Buildings	756,919	23,251	780,170
Improvements	1,598,713	15,044,150	16,642,863
Equipment	1,479,446	300,478	1,779,924
Infrastructure	11,300,081		11,300,081
Water Rights		696,466	696,466
Total Assets	<u>\$15,413,953</u>	<u>\$16,177,240</u>	<u>\$31,591,193</u>

Additional information on the City's capital assets can be found in the footnotes to this financial report.

Long-term debt. At the end of the current year, the city had total bonded debt outstanding of \$5,039,861. Of this amount \$3,087,000 comprises debt backed by the full faith and credit of the government and \$1,952,861 is debt that is secured by specific revenue sources (i.e., revenue bonds).

Salem City's Outstanding Debt General Obligation and Revenue Bonds

The City's total outstanding debt increased (decreased) by (\$529,000) during the current fiscal year. The key factors in the decrease were the scheduled bond payments.

Salem City's most recent bond issue had a rating of "AAA" from Moody's Investors Service, Inc.

Additional information on the City's long-term debt can be found in the footnotes to this financial report.

Economic Factors and Next Year's Budgets and Rates

- The General Fund budget for the fiscal year-ending June 30, 2006 reflects an increase of 7% over the final fiscal year ending, June 30, 2005
- Small commercial businesses in Salem are increasing

Request for Information

This financial report is designed to provide a general overview of Salem City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to: Salem City, Finance Director, P.O. Box 901, Salem, Utah, 84653.

**GOVERNMENTAL FUND
FINANCIAL STATEMENTS**

SALEM CITY
STATEMENT OF NET ASSETS
JUNE 30, 2005

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 590,536	\$ 799,648	\$ 1,390,184
Cash - Restricted	-	154,457	154,457
Receivables - net	275,198	276,678	551,876
Inventories	-	195,282	195,282
Equity in Joint Venture	-	204,915	204,915
Deferred bond financing cost - net	19,995	262,869	282,864
Capital assets (net of accumulated depreciation):			
Land	278,794	112,895	391,689
Buildings	590,019	4,826	594,845
Improvements	1,133,591	11,876,049	13,009,640
Equipment	409,315	65,973	475,288
Infrastructure	4,542,335	-	4,542,335
Water Rights and Stock	-	696,466	696,466
Total assets	<u>7,839,783</u>	<u>14,650,058</u>	<u>22,489,841</u>
LIABILITIES			
Accounts payable and accrued liabilities	246,978	183,236	430,214
Bond interest payable	12,320	43,756	56,076
Bonds and Capital Leases payable - current	49,855	528,000	577,855
Compensated Absences	7,177	-	7,177
Internal Balances	57,611	(57,181)	430
Deferred revenue	246,001	35,917	281,918
Bonds and Capital Leases payable - noncurrent	769,821	3,807,861	4,577,682
Total liabilities	<u>1,389,763</u>	<u>4,541,589</u>	<u>5,931,352</u>
NET ASSETS			
Invested in capital assets, net of related debt	6,057,270	8,420,348	14,477,618
Restricted for Roads and Recreational Facilities	221,403	574,948	796,351
Reserved for Special Activities	20,595	-	20,595
Unrestricted	150,752	1,113,173	1,263,925
Total net assets	<u>\$ 6,450,020</u>	<u>\$ 10,108,469</u>	<u>\$ 16,558,489</u>

See accompanying notes.

SALEM CITY
Statement of Activities
For the Year Ended June 30, 2005

Function/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating		Capital Grants and Contributions	Primary Government		
			Grants and Contributions			Governmental Activities	Business-type Activities	Total
Primary government:								
Governmental activities:								
General government	\$ 553,568	\$ 575,878	\$ 20,101	\$ -	\$ -	\$ 42,411	\$ -	\$ 42,411
Public safety	674,167	85,096	38,764			(550,307)		(550,307)
Highways and public works	476,080	65,200	164,225		125,938	(120,717)		(120,717)
Parks and recreation	567,188	172,134	23,406		114,893	(256,755)		(256,755)
Interest on long-term debt	39,749					(39,749)		(39,749)
Total governmental activities	2,310,752	898,308	246,496		240,831	(925,117)		(925,117)
Business-type activities:								
Water Utility	612,237	621,800			329,783		339,346	339,346
Sewer Utility	462,930	408,089			177,554		122,713	122,713
Electric Utility	1,816,425	1,766,010			156,304		105,889	105,889
Waste Utility	210,102	208,038			0		(2,064)	(2,064)
Total business-type activities	3,101,694	3,003,937	0		663,641		565,884	565,884
Total primary government	\$ 5,412,446	\$ 3,902,245	\$ 246,496		\$ 904,472	\$ (925,117)	\$ 565,884	\$ (359,233)
General revenues:								
Property taxes						\$ 266,038	\$ 42,791	\$ 308,829
General sales and use tax						456,112		456,112
Franchise tax						208,442		208,442
Unrestricted investment earnings						5,320	13,895	19,215
Miscellaneous						400		400
Transfers						21,237	(21,237)	0
Total general revenues and transfers						957,549	35,449	992,998
Change in net assets						32,432	601,333	633,765
Net assets - beginning						6,400,264	9,507,136	15,907,400
Net assets - ending						\$ 6,432,696	\$10,108,469	\$16,541,165

See accompanying notes.

SALEM CITY
Balance Sheet
Governmental Funds
June 30, 2005

	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 494,977	\$ 95,559	\$ 590,536
Receivables (net):			
Property tax	234,050	-	234,050
Other	41,148	-	41,148
Interfund Loan	-	19,500	19,500
Total assets	<u>\$ 770,175</u>	<u>\$ 115,059</u>	<u>\$ 885,234</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable & accrued liabilities	\$ 246,978	\$ -	\$ 246,978
Notes payable - interfund	19,500	-	19,500
Deferred revenue	246,001	-	246,001
Total liabilities	<u>512,479</u>	<u>-</u>	<u>512,479</u>
Fund Balances:			
Fund Balance Restricted for:			
Roads and recreational activities	221,403	-	221,403
Fund balances reserved for:			
Public safety, library, and park activities	20,595	-	20,595
Unreserved, reported in:			
General Fund	15,698	-	15,698
Special Revenue Funds	-	54,045	54,045
Perpetual Care Fund	-	61,014	61,014
Total fund balances	<u>257,696</u>	<u>115,059</u>	<u>372,755</u>
Total liabilities and fund balances	<u>\$ 770,175</u>	<u>\$ 115,059</u>	<u>\$ 885,234</u>

See accompanying notes.

SALEM CITY
Balance Sheet Reconciliation to
Statement of Net Assets
June 30, 2005

Total fund balances - governmental fund types: \$ 372,755

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. 6,954,054

Governmental funds report the effects of bond issuance costs, whereas these amounts are deferred and shown as net amortization in the statement of net assets. 19,995

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. (896,784)

Net assets of government activities \$ 6,450,020

See accompanying notes.

SALEM CITY
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2005

	General Fund	Other Governmental Funds	Total Governmental Funds
REVENUES			
Taxes	\$ 930,592	\$ -	\$ 930,592
Licenses and permits	309,030	-	309,030
Intergovernmental	202,989	66,073	269,062
Charges for services	616,890	-	616,890
Investment Earnings	3,553	1,767	5,320
Fines and forfeitures	21,208	-	21,208
Miscellaneous revenue	43,507	-	43,507
Total revenues	<u>2,127,769</u>	<u>67,840</u>	<u>2,195,609</u>
EXPENDITURES			
Current:			
General government	536,737	-	536,737
Public safety	644,766	-	644,766
Highways and public works	305,508	-	305,508
Parks and recreation	585,157	-	585,157
Debt service:			
Principal retirement		26,000	26,000
Interest and fiscal charges		38,913	38,913
Total expenditures	<u>2,072,168</u>	<u>64,913</u>	<u>2,137,081</u>
Excess revenues over (under) expenditures	<u>55,601</u>	<u>2,927</u>	<u>58,528</u>
Other financing sources (uses)			
Transfers In	21,237	-	21,237
Sale of assets	400	-	400
Total other financing sources and uses	<u>21,637</u>	<u>-</u>	<u>21,637</u>
Net change in fund balance	77,238	2,927	80,165
Fund balances - beginning of year	<u>180,458</u>	<u>112,132</u>	<u>292,590</u>
Fund balances - end of year	<u>\$ 257,696</u>	<u>\$ 115,059</u>	<u>\$ 372,755</u>

See accompanying notes.

SALEM CITY
Statement of Changes
Reconciliation to Statement of Activities
For the Year Ended June 30, 2004

Amounts reported for governmental activities in the statement of activities are different because:

Net changes in fund balances - total governmental funds	\$ 80,165
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.	(202,108)
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase (decrease) net assets	125,938
The issuance of long-term debt (e.g., bonds, leases) provide current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. This amount is the net effect of these differences in the treatment of long-term debt and related items	42,034
Internal service funds are used by management to charge the cost of the motor pool and data processing to individual funds. The net asset increase of the internal service funds are reposted with governmental.	4,636
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	<u>(909)</u>
Change in net assets of governmental activities	<u><u>\$ 49,756</u></u>

See accompanying notes.

SALEM CITY

General Fund

Statement of Revenues, Expenditures and Changes in Fund Balances -Budget and Actual For the Year Ended June 30, 2005

	Budget Amounts		General Fund	Variances with Final Budget Positive (Negative)
	Original Budget	Final Budget		
REVENUES				
Taxes	\$ 904,000	\$ 922,300	\$ 930,592	\$ 8,292
Licenses and permits	151,150	146,100	309,030	162,930
Intergovernmental	214,000	277,615	202,989	(74,626)
Charges for services	710,550	571,450	616,890	45,440
Fines and forfeitures	16,000	20,000	21,208	1,208
Miscellaneous revenue	5,050	181,900	47,060	(134,840)
Total revenue	<u>2,000,750</u>	<u>2,119,365</u>	<u>2,127,769</u>	<u>8,404</u>
EXPENDITURES				
Current:				
General government	485,220	544,170	536,737	7,433
Public safety	651,117	682,082	644,766	37,316
Highways and public works	300,200	273,200	305,508	(32,308)
Parks and recreation	635,450	681,150	585,157	95,993
Total expenditures	<u>2,071,987</u>	<u>2,180,602</u>	<u>2,072,168</u>	<u>108,434</u>
Excess revenues over (under) expenditures	<u>(71,237)</u>	<u>(61,237)</u>	<u>55,601</u>	<u>116,838</u>
Other financing sources (uses)				
Sale of Assets	-	-	400	400
Transfers In	21,237	21,237	21,237	-
Transfer from Bonds	50,000	50,000	-	(50,000)
Net change in fund balance	<u>(50,000)</u>	<u>10,000</u>	<u>77,238</u>	<u>67,238</u>
Fund balances - beginning of year	<u>180,458</u>	<u>180,458</u>	<u>180,458</u>	<u>-</u>
Fund balances - end of year	<u>\$ 130,458</u>	<u>\$ 190,458</u>	<u>\$ 257,696</u>	<u>\$ 67,238</u>

See accompanying notes.

SALEM CITY
Statement of Net Assets
Proprietary Funds
June 30, 2005

	Business-Type Activities - Enterprise			Non-Major Enterprise Fund		Governmental Activities Internal Service Fund
	Water Utility	Sewer Utility	Electric Utility	Waste Utility	Total	
ASSETS						
Current assets:						
Cash and cash equivalents	\$ 201,249	\$ 194,139	\$ 302,310	\$ 101,950	\$ 799,648	\$ -
Accounts receivable - net	36,398	79,985	140,348	19,947	276,678	-
Inventories	22,720	-	172,562	-	195,282	-
Due from other funds	-	57,611	-	-	57,611	-
Total current assets	260,367	331,735	615,220	121,897	1,329,219	-
Noncurrent assets:						
Restricted cash and cash equivalents	37,092	-	117,365	-	154,457	-
Land, equipment, buildings and improv.	6,949,056	5,661,392	2,767,915	102,414	15,480,777	755,236
Less: Accumulated depreciation	(1,195,019)	(1,561,771)	(588,999)	(75,245)	(3,421,034)	(614,038)
Water Rights and Stock	696,466	-	-	-	696,466	-
Equity in Joint Venture	-	-	-	204,915	204,915	-
Deferred bond financing costs - net	236,214	3,048	23,607	-	262,869	-
Total noncurrent assets	6,723,809	4,102,669	2,319,888	232,084	13,378,450	141,198
Total assets	\$ 6,984,176	\$ 4,434,404	\$ 2,935,108	\$ 353,981	\$ 14,707,669	\$ 141,198
LIABILITIES						
Current liabilities:						
Accounts payable and accrued liabilities	\$ 48,094	\$ 38,236	\$ 176,579	\$ -	\$ 262,909	\$ 57,611
Bonds and capital leases	263,000	155,000	110,000	-	528,000	-
Total current liabilities	311,094	193,236	286,579	-	790,909	57,611
Noncurrent liabilities:						
Bonds and capital leases	2,940,875	206,986	660,000	-	3,807,861	-
Total noncurrent liabilities	2,940,875	206,986	660,000	-	3,807,861	-
Total liabilities	3,251,969	400,222	946,579	-	4,598,770	57,611
Net Assets:						
Invested in cap assets, net of related debt	3,246,628	3,737,635	1,408,916	27,169	8,420,348	141,198
Restricted for debt and other activities	96,395	306,115	172,438	-	574,948	-
Unrestricted	389,184	(9,568)	407,175	326,812	1,113,603	(57,611)
Total net assets	\$ 3,732,207	\$ 4,034,182	\$ 1,988,529	\$ 353,981	\$ 10,108,899	\$ 83,587
Adjustment to reflect the consolidation of internal services funds activities related to enterprise fund					\$ (430)	
Net assets from business-type activities					\$10,108,469	

See accompanying notes.

SALEM CITY
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2005

	Business-Type Activities - Enterprise			Non-Major Enterprise Fund		Governmental Internal Service Fund
	Water Utility	Sewer Utility	Electric Utility	Waste Utility	Total	
Operating revenues:						
Charges for Services	\$ 602,233	\$ 406,169	\$ 1,700,515	\$ 205,842	\$ 2,914,759	\$ 272,530
Fees and Miscellaneous	19,567	1,920	14,393	-	35,880	-
Total operating revenues	621,800	408,089	1,714,908	205,842	2,950,639	272,530
Operating expenses:						
Purchased Power	-	-	1,107,161	-	1,107,161	-
Salaries and wages	39,527	72,292	177,883	3,763	293,465	69,117
Employee benefits	20,583	39,789	73,295	446	134,113	31,613
Contractual Services	133,756	73,321	131,756	157,156	495,989	93,941
Supplies and Materials	45,408	29,184	74,222	2,540	151,354	17,066
Administrative Services	92,000	73,000	135,000	40,000	340,000	-
Utilities and Telephone	15,993	52,301	-	-	68,294	-
Depreciation	134,671	107,561	68,409	6,153	316,794	62,423
Amortization of bond financing costs	22,879	2,914	4,426	-	30,219	-
Total operating expenses	504,817	450,362	1,772,152	210,058	2,937,389	274,160
Operating income	116,983	(42,273)	(57,244)	(4,216)	13,250	(1,630)
Nonoperating revenues (expenses):						
Property Taxes	-	42,791	-	-	42,791	-
Late Payment Penalty	-	-	51,102	-	51,102	-
Interest revenue	5,079	804	7,929	83	13,895	1,164
Impact Fees	263,856	116,361	90,060	-	470,277	-
Increase Equity in Joint Venture	-	-	-	2,196	2,196	-
Interest expense and fiscal charges	(107,296)	(12,479)	(44,100)	-	(163,875)	-
Total nonoperating revenues (expenses)	161,639	147,477	104,991	2,279	416,386	1,164
Net income before contributions & transfers	278,622	105,204	47,747	(1,937)	429,636	(466)
Transfers Out	-	(21,237)	-	-	(21,237)	-
Developers Contributions	65,927	61,193	66,244	-	193,364	-
Change in net assets	344,549	145,160	113,991	(1,937)	601,763	(466)
Total net assets - beginning	3,387,658	3,889,022	1,874,538	355,918	9,507,136	84,053
Total net assets - ending	\$ 3,732,207	\$ 4,034,182	\$ 1,988,529	\$ 353,981	\$ 10,108,899	\$ 83,587
Adjustment to reflect the consolidation of internal services funds activities related to enterprise fund					\$ (430)	
Change in net assets of business-type activities					\$10,108,469	

See accompanying notes.

SALEM CITY
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2005

	Business-Type Activities - Enterprise			Non-Major Enterprise Fund	
	Water Utility	Sewer Utility	Electric Utility	Waste Utility	Total
Cash Flows From Operating Activities					
Receipts from customers	\$ 639,949	\$ 400,961	\$ 1,695,152	\$ 204,889	\$ 2,940,951
Payments to suppliers	(214,809)	(194,595)	(1,381,850)	(160,142)	(1,951,396)
Payments to general fund for services	(92,000)	(73,000)	(135,000)	(40,000)	(340,000)
Payments to employees	(39,527)	(72,292)	(177,883)	(3,763)	(293,465)
Net cash provided (used) by operating activities	293,613	61,074	419	984	356,090
Cash Flows From Noncapital Financing Activities					
Interfund activity	-	(16,598)	-	-	(16,598)
Net cash provided (used) by noncapital financing activities	-	(16,598)	-	-	(16,598)
Cash Flows From Capital and Related Financing Activities					
Property Taxes		42,791		-	42,791
Impact fees	263,856	116,361	90,060	-	470,277
Late payment penalty	-	-	51,102	-	51,102
Purchases of capital assets	(229,256)	(143,007)	(46,977)	-	(419,240)
Principal paid on debt	(269,507)	(145,000)	(105,000)	-	(519,507)
Interest paid on capital debt	(110,570)	(12,718)	(45,016)	-	(168,304)
Net cash provided (used) by capital and related financing activities	(345,477)	(141,573)	(55,831)	-	(542,881)
Cash Flows From Investing Activities					
Interest and dividends received	5,079	804	7,929	83	13,895
Net cash provided (used) by investing activities	5,079	804	7,929	83	13,895
Net increase (decrease) in cash and cash equivalents	(46,785)	(96,293)	(47,483)	1,067	(189,494)
Cash and cash equivalents - beginning	285,128	290,432	467,158	100,883	1,143,601
Cash and cash equivalents - end	\$ 238,343	\$ 194,139	\$ 419,675	\$ 101,950	\$ 954,107

See accompanying notes.

SALEM CITY
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2005

	<u>Business-Type Activities - Enterprise</u>			<u>Non-Major Enterprise Fund</u>	
	<u>Water Utility</u>	<u>Sewer Utility</u>	<u>Electric Utility</u>	<u>Waste Utility</u>	<u>Total</u>
Reconciliation of operating income to net cash provided (used) by operating activities:					
Operating income	\$ 116,983	\$ (42,273)	\$ (57,244)	\$ (4,216)	\$ 13,250
Adjustments to reconcile operating income to net cash provided (used) by operating activities:					
Depreciation expense	134,671	107,561	68,409	6,153	316,794
Amortization expense	22,879	2,914	4,426		30,219
(Increase) decrease in accounts receivable	18,149	(7,128)	(5,886)	(953)	4,182
Increase (decrease) in inventory	931		(13,023)		(12,092)
Increase (decrease) in accounts payable	0		17,607		17,607
Increase (decrease) in customers deposits			(13,870)		(13,870)
Total adjustments	<u>176,630</u>	<u>103,347</u>	<u>57,663</u>	<u>5,200</u>	<u>342,840</u>
Net cash provided (used) by operating activities	<u>\$ 293,613</u>	<u>\$ 61,074</u>	<u>\$ 419</u>	<u>\$ 984</u>	<u>\$ 356,090</u>

Supplementary information:

Non-cash items from capital and related financing activities include contributions by subdivides to the water system of \$65,927, to the sewer system of \$61,193, and to the electric system of \$66,244.

SALEM CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Salem City Corporation (the City) financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. The City applies FASB pronouncements issued after that date to its business-type activities and enterprise funds. The more significant accounting policies established in GAAP and used by the City are discussed below.

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No.34, Basic Financial Statements---and Management's Discussion and Analysis---for State and Local Governments.

A. Reporting Entity

Salem City Corporation was incorporated under laws of the State of Utah. Under the present form of government, administrative and legislative powers are vested in a governing body, consisting of the Mayor and a City Council. They are assisted by a Finance Director who is currently responsible for the financial matters of the City, including money management, accounts payable, financial statements, and accounts receivable.

The City provides the following services as mandated by law: Public Safety, Judicial Services, Highways and Streets, Sanitation, Parks, Cemetery, Water, Sewer, Storm Drain, Public Improvements, Planning and Zoning, and General Administrative Services

Blended Component Units.

The Municipal Building Authority was created by the City during fiscal year 2002 and is governed by the City's Mayor and Council. The authority uses the proceeds of its tax-exempt bonds to finance the construction or acquisition of general capital assets for the City. The bonds are secured by a lease agreement with the City and will be retired through lease payments from the City. The financial statements of the Municipal Building Authority are included in the accompanying financial statements as a blended component unit.

The Municipal Building Authority is considered a blended component unit since the governing board is the same governing board of the City.

SALEM CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 1 – SUMMARY (CONTINUED)

The Municipal Building Authority is presented as a special revenue fund in the financial statements.

Complete financial statements for each of the individual component units may be obtained at the City's administrative offices.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statements of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

SALEM CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 1 – SUMMARY (CONTINUED)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified basis of accounting. Revenues are recognized when susceptible to accrual (i.e., when they are “measurable and available”). “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The government considers all revenues available if they are collected within 60 days after the year-end. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt as well as expenditures related to compensated absences, claims, and judgments, which are recorded only when payment is due.

Property taxes, sales taxes, franchise taxes, and earned but unreimbursed state and federal grants associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The *general fund* is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

The government reports the following major proprietary funds:

The *water fund* accounts for the activities of the City’s water operations.

The *sewer fund* accounts for the activities of the City’s sewer operations.

The *electric fund* accounts for the activities in the City’s electric operations.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statement. Exceptions to this general rule are payments to the general fund by the various enterprise funds for providing administrative services for such funds. Elimination of these charges would distort the direct costs and program revenue reported for the various functions concerned.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund’s principle ongoing operations.

SALEM CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 1 – SUMMARY (CONTINUED)

Additionally, the government reports the following fund types:

Special Revenue Funds

Municipal Building Authority accounts for the activities of the municipal building authority.

Internal Service Funds

Motor Pool Fund accounts for the activities of the motor pool.

Data Processing Fund accounts for the activities of the data processing services.

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Investments consist of amounts deposited with Utah Public Treasurers' Investment Fund, treasury bills of the U.S. Government, and money market funds. Investments are stated at fair value, which approximates cost.

2. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to either "due to/due from other funds".

3. Inventories and prepaid items

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

4. Restricted Assets

Restricted assets are comprised of cash restricted for future payments of principal and interest on debt services.

Restricted resources rather than unrestricted resources are used first to fund related appropriations.

SALEM CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 1 – SUMMARY (CONTINUED)

5. Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The infrastructure assets consist of the estimated value of the City's streets and roads at July 1, 2003, plus the costs of additions since that date.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the primary government is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and structures	25-40
Improvements other than buildings	20-25
Infrastructure	20
Machinery and equipment	5-10

6. Compensated Absences

Employees may accumulate sick leave. Those with accumulated leave in excess of 80 hours may be compensated. Unpaid compensated absences are shown as General Long-Term Debt.

7. Taxes

In Utah, county governments assess, levy, collect and disburse two principal types of tax: (1) personal property tax which is assessed on business assets other than real estate, and (2) tax on real estate and improvements. Business personal property and real estate taxes attach as an enforceable lien on property as of January 1st. Taxes are levied on all business personal property

SALEM CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

on January 1st and real estate and improvement taxes are levied on January 1st and are payable by November 30th. The real property taxes that are due in November are reported as a receivable from property taxes on the financial statements. Because these taxes are not considered available to liquidate liabilities of the current period, they are offset by deferred revenue.

The City Council is authorized by state statute to levy a tax against all real and personal property located within its boundaries. The Council must set a tax rate by June 22nd each year. The County Treasurer, acting as a tax collector, must settle and disburse all tax collections to all taxing entities on a routine basis.

8. Long-term obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the accrual debt proceeds received, are reported as debt service expenditures.

9. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

10. Use of Estimates

Presenting financial statements in conformity with Generally Accepted Accounting Principles requires management to make certain estimates concerning assets, liabilities, revenues, and expenses. Actual results may vary from these estimates.

SALEM CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets

The governmental fund balance sheet includes a reconciliation between *fund balance – total governmental funds* and *net assets – governmental activities* as reported in the government-wide statement of net assets.

This difference primarily results from the long-term economic focus of the statement of net assets versus the current financial resources focus of the governmental fund balance sheets.

Capital related items:

When capital assets (property, plant, and equipment) that are to be used in governmental activities are purchased or constructed, the cost of these assets are reported as expenditures in governmental funds. However, the statement of net assets includes those capital assets among the assets of the city as a whole.

Cost of capital assets	\$15,413,953
Accumulated depreciation	<u>(8,459,899)</u>
Net adjustment to increase <i>fund balance – total governmental funds</i> to arrive at <i>net assets – governmental activities</i>)	<u>\$ 6,954,054</u>

Long-term debt transactions:

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities in the fund statements. All liabilities (both current and long-term) are reported in the statement of net assets.

Bonds and capital leases payable	(\$ 819,676)
Bond interest payable	(12,320)
Other long-term payables	<u>(64,788)</u>
Net adjustment to reduce <i>fund balance – total governmental funds</i> to arrive at <i>net assets – governmental activities</i>	<u>(\$ 896,784)</u>

SALEM CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The governmental fund statement of revenues, expenditures and changes in fund balances includes a reconciliation between *net changes in fund balances – total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that “governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.”

Capital outlay	\$ 348,093
Depreciation expense	<u>(550,201)</u>

Net adjustment to increase <i>net changes in fund balances-total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u>(\$ 202,108)</u>
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Capital contribution by developers	<u>\$ 125,938</u>
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Another element of that reconciliation states, “The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.”

Debt issued or retired:	
Principal paid on bonds and capital leases	43,324
Issuance cost amortization	<u>(1,290)</u>
Total debt incurred	<u>\$ 42,034</u>

Accrual of debt interest expense	<u>(\$ 12,320)</u>
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NOTE 3 – BUDGETS AND BUDGETARY ACCOUNTING

Annual budgets are prepared and adopted in accordance with the Uniform Fiscal Procedures Act adopted by the State of Utah. Once a budget has been adopted, it remains in effect until it has been formally revised. Furthermore, in accordance with state law, all appropriations lapse at the end of the budget year. If any obligations are contracted for and are in excess of adopted budget, they are not a valid or enforceable claim against the City. Budgets are adopted on a basis consistent with generally accepted accounting principles. All funds of the City have legally adopted budgets.

SALEM CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 3 – BUDGETS (CONTINUED)

The City adheres to the following procedures in establishing the budgetary data reflected in the financial statements:

- A. On or before the first regularly scheduled meeting of the City Council in May, the City administrator, authorized under state statute to be appointed budget officer, submits a proposed operation budget. The operating budget includes proposed expenditures and the means of financing them.
- B. A public hearing is held at which time the taxpayers' comments are heard. Notice of the hearing is given in the local newspaper at least seven days prior to the hearing. Copies of the proposed budget are made available for public inspection ten days prior to the public hearing.
- C. On or before June 22nd, a final balanced budget must be adopted through passage of a resolution for the subsequent fiscal year beginning July 1st.
- D. Control of budgeted expenditures is exercised, under state law, at the departmental level. The City Administrator, however, acting as budget officer, has the authority to transfer budget appropriations between line items within any department of any budgetary fund. The City Council, by resolution, has the authority to transfer budget appropriations between the individual departments of any budgetary fund.
- E. Budget appropriations for any department may be reduced by resolution.
- F. A public hearing as required in B) above, must be held to increase the total appropriations of any one governmental fund type; however, after the original public hearing, operating and capital budgets of proprietary fund types may be increased by resolution without an additional hearing.
- G. Encumbrances lapse at year end. Encumbered amounts carry over to the following year and are subject to reappropriation. Therefore, no encumbrances are presented in the financial statements.

During the budget year, the City modified the budget on several occasions using the above procedures.

NOTE 4 – CASH, CASH EQUIVALENTS AND INVESTMENTS

- A. Deposits

SALEM CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

Deposits – Custodial Credit Risk – Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City follows the requirements of the Utah Money Management Act (Section 51, chapter 7 of the Utah Code) in handling its depository and investing transactions. The City considers the actions of the Council to be necessary and sufficient for adequate protection of its uninsured bank deposits. City funds are deposited in qualified depositories as defined by the Act. The City does not have a deposit policy for custodial credit risk. As of June 30, 2005, the City's custodial credit risk for deposits were as follows:

<u>Depository Account</u>	<u>Custodial Credit Risk</u>	<u>Balance June 30, 2005</u>
Regular Checking Account	Insured	\$ 64,471
Savings Account	Insured	135,529
Savings and Other Deposits	Uninsured and uncollateralized	<u>1,069,288</u>
		<u><u>\$1,269,288</u></u>

B. Investments

The City's investments are managed through participation in the State Public Treasurer's Investment Fund. As of June 30, 2005, the City had the following investments:

<u>Investment</u>	<u>Maturities</u>	<u>Fair Value</u>
Utah Public Treasurers' Investment Fund	59 days average	<u>\$597,575</u>

Investments – Interest Rate Risk – The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. However, interest rate risk is managed by compliance to the Utah Money Management Act which provides guidance for handling depository and investing transactions in order to minimize interest rate risk.

Investments – Credit Risk – The City follows the requirements of the Utah Money Management Act (Section 51, chapter 7 of the Utah Code) in handling its depository and investing transactions. City funds are deposited in qualified depositories as defined by the Act. The Act also authorizes the City to invest in the Utah Public Treasurers' Investment Fund (PTIF), certificates of deposit, U.S. Treasury obligations, U.S. agency issues, high-trade commercial paper, bankers' acceptances, repurchase agreements, corporate bonds, restricted mutual funds, and obligations of governmental entities within the State of Utah.

SALEM CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 4 – CASH AND INVESTMENTS (CONTINUED)

The PTIF is invested in accordance with the Act. The State Money Management Council provides regulatory oversight for the PTIF. The degree of risk of the PTIF depends upon the underlying portfolio. The Act and Council rules govern the financial reporting requirements of qualified depositories in which public funds may be deposited and prescribe the conditions under which the designation of a depository shall remain in effect. If a qualified depository should become ineligible to hold public funds, public treasurers are notified immediately. The City considers the actions of the Council to be necessary and sufficient for adequate protection of its investments. The City has no investment policy that would further limit its investment choices.

Investments – Custodial Credit Risk – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's entire \$597,575 of underlying securities are held by the investment's counterparty, not in the name of the City, and are not insured. The District does not have an investment policy for custodial credit risk.

NOTE 5 - RECEIVABLES

Receivables as of year end for the government's individual major fund and non-major funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	General	Water	Sewer	Electric	Nonmajor Governmental Waste	Total
Receivables:						
Accounts	\$ -	\$ 36,398	\$ 35,662	\$ 134,314	\$ 19,947	\$ 226,321
Property Tax	234,050		37,645			271,695
Other	41,148		6,678			47,826
Total	<u>\$ 275,198</u>	<u>\$ 36,398</u>	<u>\$ 79,985</u>	<u>\$ 134,314</u>	<u>\$ 19,947</u>	<u>\$ 545,842</u>

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of *deferred revenue* and *unearned revenue* reported in the governmental funds were as follows:

SALEM CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 5 – RECEIVABLES (CONTINUED)

	<u>Unavailable</u>	<u>Unearned</u>
Plat inspection fee (General Fund)		\$ 22,700
Property taxes (General Fund)	\$223,301	
Property taxes receivable (Sewer Fund)	<u>35,719</u>	<u>-</u>
Total deferred/unearned revenue for Governmental Funds	<u>\$259,020</u>	<u>\$ 22,700</u>

NOTE 6 – INTERFUND RECEIVABLES, PAYABLE AND TRANSFERS

The composition of interfund balances as of June 30, 2005 is as follows:

Due to/from other funds:

<u>Receivable fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Sewer Fund	Internal Service Funds	\$ 57,611

SALEM CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 7 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2005 was as follows:

Primary Government <i>Governmental activities:</i>	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 278,794	\$ -	\$ -	\$ 278,794
Total capital assets not being depreciated	278,794	-	-	278,794
Capital assets being depreciated:				
Buildings	756,919	-		756,919
Improvements	1,843,662	69,532		1,913,194
Machinery and equipment	1,422,127	57,319		1,479,446
Infrastructure	10,638,419	347,181		10,985,600
Total capital assets being depreciated	14,661,127	474,032	\$ -	15,135,159
Less accumulated depreciation for:				
Buildings	151,763	15,137		166,900
Improvements	512,195	49,751		561,946
Machinery and equipment	974,229	95,902		1,070,131
Infrastructure	6,271,511	389,411		6,660,922
Total accumulated depreciation	7,909,698	550,201	-	8,459,899
Total capital assets, being depreciated, net	6,751,429	(76,169)	-	6,675,260
Governmental activities capital assets, net	\$ 7,030,223	\$ (76,169)	\$ -	\$ 6,954,054
<i>Business-type activities:</i>				
Capital assets not being depreciated:				
Land	\$ 112,895			\$ 112,895
Total capital assets not being depreciated	112,895	\$ -	-	112,895
Capital assets being depreciated:				
Buildings	23,251	0		23,251
Improvements	14,657,711	386,440		15,044,151
Machinery and equipment	300,480	0	0	300,480
Total capital assets being depreciated	14,981,442	386,440	-	15,367,882
Less accumulated depreciation for:				
Buildings	18,239	186		18,425
Improvements	2,878,825	289,277		3,168,102
Machinery and equipment	207,176	27,331	-	234,507
Total accumulated depreciation	3,104,240	316,794	-	3,421,034
Total capital assets, being depreciated, net	11,877,202	69,646	-	11,946,848
Business-type activities capital assets, net	\$ 11,990,097	\$ 69,646	\$ -	\$ 12,059,743

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General government	\$ 77,422
Public safety	29,401
Highways and public improvements	391,815
Parks and recreation	51,563
Total depreciation expense - governmental activities	\$ 550,201

SALEM CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 7 – CAPITAL ASSETS (*CONTINUED*)

Business – type activities:	
Water	\$134,671
Sewer	107,561
Electric	68,409
Solid Waste	<u>6,153</u>
Total Business-type activities	<u>\$316,794</u>

NOTE 8 - CAPITAL LEASE COMMITMENTS

The assets acquired through capital leases are as follows:

<u>Activities</u>	<u>Governmental Activities</u>
Asset:	
Fire Truck	<u>\$ 133,000</u>

Amortization of capital assets purchased under capital leases is included in depreciation.

The City has acquired fixed assets financed with capital leases. The related lease agreements contain fiscal funding clauses which allow cancellation of the leases if future funding of the leases are not budgeted by the City Council.

The following is a schedule of yearly future lease payments under governmental fund-type capital leases together with the present value of net minimum lease payments as of June 30, 2005

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 17,855	\$ 3,382	\$ 21,237
2007	18,402	2,835	21,237
2008	18,966	2,271	21,237
2009	19,546	1,691	21,237
2010	20,145	1,092	21,237
2011	<u>20,762</u>	<u>474</u>	<u>21,236</u>
	<u>\$115,676</u>	<u>\$11,745</u>	<u>\$127,421</u>

SALEM CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

9. LONG-TERM DEBT

Water Revenue Bonds - Series 1991 - (4% Interest) - (Payments Due Annually)

<u>Date</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
1/1/2006	\$ 23,000	\$ 7,400	\$ 30,400
1/1/2007	24,000	6,480	30,480
1/1/2008	25,000	5,520	30,520
1/1/2009	27,000	4,520	31,520
1/1/2010	28,000	3,440	31,440
2011-2012	58,000	3,520	61,520
	<u>\$185,000</u>	<u>\$ 30,880</u>	<u>\$215,880</u>

Sewer Revenue Bonds - Series 1994 - (2% Interest) Issued 4/18/94 - (Payments Due Annually)

<u>Date</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
10/1/2005	\$ 16,000	\$ 3,100	\$ 19,100
10/1/2006	16,000	2,780	18,780
10/1/2007	17,000	2,460	19,460
10/1/2008	17,000	2,120	19,120
10/1/2009	17,000	1,440	18,440
2010-2014	71,986	3,920	75,906
	<u>\$154,986</u>	<u>\$15,820</u>	<u>\$170,806</u>

General Obligation Refunding Bonds - Series 1992 - (3.85% to 6.00% Interest)
Issued November 15, 1992 - Interest due July 1 and January 1

<u>Date</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
1/1/2006	<u>\$105,000</u>	<u>\$ 3,465</u>	<u>\$ 108,465</u>

General Obligation Taxable Sewer Bonds - Series 1993
Issued February 1, 1993

<u>Date</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2/1/2006	\$ 34,000	\$ 0	\$ 34,000
2/1/2007	34,000	0	34,000
2/1/2008	34,000	0	34,000
	<u>\$102,000</u>	<u>\$ 0</u>	<u>\$102,000</u>

SALEM CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

9. LONG-TERM DEBT (CONTINUED)

General Obligation Water Bond - Series 1996

Issued March 15, 1996 - Interest Due March 1 and September 1

<u>Date</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	<u>\$ 185,000</u>	<u>\$ 9,250</u>	<u>\$ 194,250</u>

Water Revenue Bond - Series 1996 - Issued 1996

<u>Date</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 15,000	\$ 0	\$ 15,000
2007	15,000	0	15,000
2008	15,000	0	15,000
2009	15,000	0	15,000
2010	15,000	0	15,000
2011-2015	63,875	0	63,875
	<u>\$ 138,875</u>	<u>\$ 0</u>	<u>\$ 138,875</u>

The General Obligation Refunding Bonds refunded the bonds issued for the construction of the Sewer Plant. The plant is used jointly by Salem City and Elk Ridge City. The bond payments are shared by both cities in ratio to their sewer connections. The ratio is currently 81.95% by Salem City and 18.05% by Elk Ridge City.

Excise Tax Revenue Bonds - Series 2002

Issued September 15, 2002 - Interest Due February 15 and August 15

<u>Date</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
08/15/05	\$ 32,000	\$ 36,120	\$ 68,120
08/15/06	33,000	34,414	67,414
08/15/07	33,000	32,681	65,681
08/15/08	35,000	30,896	65,896
08/15/09	36,000	29,033	65,033
08/15/10 - 2015	208,000	114,345	322,345
08/15/16 - 2020	268,000	51,712	319,712
08/15/2001	59,000	1,549	60,549
	<u>\$704,000</u>	<u>\$330,750</u>	<u>\$1,034,750</u>

SALEM CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

General Obligation Refunding Water Bonds – Series 2004
Issued March 1, 2004 – Interest Due March 1, and September 1

<u>Date</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
03/01/06	\$ 40,000	\$ 83,088	\$ 123,088
03/01/07	240,000	82,288	322,288
03/01/08	240,000	77,487	317,487
03/01/09	245,000	72,087	317,087
03/01/10	250,000	65,962	315,962
2011-2015	1,375,000	209,175	1,584,175
2016	305,000	12,200	317,200
	<u>\$2,695,000</u>	<u>\$602,287</u>	<u>\$3,297,287</u>

Electric Revenue Bonds - Series 2000
Issued November 18, 2000 - Interest Due November 18 and May 1

<u>Date</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
11/01/05	\$110,000	\$ 38,202	\$148,202
11/01/06	120,000	32,193	152,193
11/01/07	125,000	25,730	150,730
11/01/08	130,000	18,940	148,940
11/01/09	140,000	11,683	151,683
11/01/10	145,000	3,951	148,951
	<u>\$770,000</u>	<u>\$130,699</u>	<u>\$900,699</u>

Bond Debt & Capital Lease Requirements

The annual requirements to amortize all bonded debt and capital lease outstanding as of June 30, 2005 including interest are as follows:

<u>Year Ended</u> <u>June 30</u>	<u>Revenue</u> <u>Bonds</u>	<u>General</u> <u>Obligation</u> <u>Bonds</u>	<u>Total</u> <u>All</u> <u>Bonds</u>	<u>Capital</u> <u>Lease</u>	<u>Total</u>
2006	\$ 280,822.50	\$ 459,802.50	\$ 740,625.00	\$ 21,236.74	\$ 761,861.74
2007	283,866.25	356,287.50	640,153.75	21,236.74	661,390.49
2008	281,391.25	351,487.50	632,878.75	21,236.75	654,115.50
2009	280,476.25	317,087.50	597,563.75	21,236.75	618,800.50
2010	281,595.00	315,962.50	597,557.50	21,236.74	618,794.24
2011-2015	672,597.70	1,584,175.00	2,256,772.70	21,236.75	2,278,009.45
2016-2020	319,712.50	317,200.00	636,912.50	.00	636,912.50
2021	60,548.75	.00	60,548.75	.00	60,548.75
	<u>2,461,010.20</u>	<u>3,702,002.50</u>	<u>6,163,012.70</u>	<u>127,420.47</u>	<u>6,290,433.17</u>
Less Amounts Representing:					
Interest	508,148.75	615,002.50	1,123,151.25	11,744.68	1,134,895.93
Current Portion	<u>196,000.00</u>	<u>364,000.00</u>	<u>560,000.00</u>	<u>17,854.87</u>	<u>577,854.87</u>
Total Long-Term Portion	<u>\$1,756,861.45</u>	<u>\$2,723,000.00</u>	<u>\$4,479,861.45</u>	<u>\$ 97,820.92</u>	<u>\$4,577,682.37</u>

SALEM CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

9. LONG-TERM DEBT (CONTINUED)

Summary of changes in long-term debt is as follows:

	Balance <u>July 1</u>	<u>Increase</u>	<u>Decrease</u>	Balance <u>June 30,</u>	Due Within <u>One Year</u>
<i>Governmental Type Activities</i>					
Excise Tax Bonds	\$ 730,000	\$ 0	\$ 26,000	\$ 704,000	\$ 32,000
Capital Lease	133,000		17,324	115,676	17,855
Compensated Absences	<u>5,813</u>	<u>1,364</u>		<u>7,177</u>	<u>-</u>
Total Governmental Activities	<u>\$ 868,813</u>	<u>\$ 1,364</u>	<u>\$ 43,324</u>	<u>\$ 826,853</u>	<u>\$ 49,855</u>
<i>Business Type Activities</i>					
General Obligation Bonds	\$3,431,000	\$ -	\$344,000	\$3,087,000	\$364,000
Revenue Bonds	<u>1,407,861</u>	<u>-</u>	<u>159,000</u>	<u>1,248,861</u>	<u>164,000</u>
Total Business Activities	<u>4,838,861</u>	<u>-</u>	<u>503,000</u>	<u>4,335,861</u>	<u>528,000</u>
Total Government-Wide	<u>\$5,707,674</u>	<u>\$ 1,364</u>	<u>\$546,324</u>	<u>\$5,162,714</u>	<u>\$577,855</u>

10. RETIREMENT PLANS

Local Governmental - Cost Sharing

Plan Description. Salem City Corporation contributes to the Local Governmental Contributory Retirement System and Local Governmental Noncontributory Retirement System for employers with Social Security coverage, Firefighters Retirement System which are for employers without Social Security coverage cost-sharing multiple-employer defined benefit pension plans administered by the Utah Retirement Systems (Systems). Utah Retirement Systems provide refunds, retirement benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries in accordance with retirement statutes.

The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953 as amended. The Utah State Retirement Office Act in Chapter 49 provides for the administration of the Utah Retirement Systems and Plans under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the Local Governmental Contributory Retirement System, Local Governmental Noncontributory Retirement System, Public Safety Retirement System for employers with Social Security coverage, and Firefighters Retirement System which are for employers without Social Security coverage. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, UT 84102 or by calling 1-800-365-8772.

SALEM CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

10. RETIREMENT PLANS (CONTINUED)

Funding Policy. Salem City Corporation is required to contribute to the Local Government Noncontributory Retirement System 11.09% of the Plan members' annual covered salary. In the Public Safety Retirement System for employers with Social Security coverage noncontributory division members are required to contribute 19.08% of their salary (all or part may be paid by the employer for the employee). The contribution rates are the actuarially determined rates. The contribution requirements of the Systems are authorized by statute and specified by the Board.

The Salem City Corporation contributions to the Local Governmental Noncontributory Retirement System for June 30, 2005, 2004 and 2003 were \$73,256, \$61,836, and \$54,434 respectively, and for the Public Safety Retirement System the contributions for June 30, 2005, 2004, and 2003 were \$37,140, \$30,887, and \$29,918 respectively, and for the 401K Plan System the contributions for June 30, 2005, 2004 and 2003 were \$29,968, \$23,429, and \$18,687 respectively. The contributions were equal to the required contributions for each year.

11. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. It is the policy of the City to purchase commercial insurance for these risks. Various policies are purchased through an insurance agency to cover liability, theft, damages, and other losses. A minimal deductible applies to these policies which the City pays in the event of any loss. The City also has purchased a workers' compensation policy. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

12. JOINT VENTURES

SOUTH UTAH VALLEY SOLID WASTE DISTRICT

Salem City joined in a joint venture with several other municipalities to create the South Utah Valley Solid Waste District (the District). The District was created for the purpose of building a landfill and transfer station and operating the same for the benefit of member municipalities. The majority of the District's sanitation service revenue comes from these governmental entities.

SALEM CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

12. JOINT VENTURES (CONTINUED)

Additional information is as follows:

- a. Participants and their percentage shares:

Spanish Fork City Corporation	11.750%
Provo City Corporation	69.750%
Springville City Corporation	15.000%
Mapleton City Corporation	2.000%
Salem City Corporation	1.500%
Goshen Town (Landfill participant only)	<u>0.000%</u>
	<u>100.000%</u>
- b. The District is governed by a Board of Directors which is compromised of six directors. The Mayor and City Council of each member City appoints one director. All decisions of the Board are by majority vote, except in the case of a tie. In a tie, the votes would be taken by tonnage. For Provo to prevail in a tie vote they would need one additional city to vote with them.
- c. The District's Board of Directors governs the operations of the District through management employed by the Board. Since the District is subject to the same laws as the creating entities, it must follow State law for cities in the areas of fiscal management, budgeting, and financing.
- d. Unaudited summary financial information of the District at June 30, 2005 is as follows:

	South Utah Valley Solid Waste District	Salem City's Share 1.50%
Total Assets	<u>\$16,642,235</u>	<u>\$ 249,634</u>
Total Liabilities	<u>\$ 2,981,242</u>	<u>\$ 44,719</u>
Total Equity	<u>\$13,660,993</u>	<u>\$ 204,915</u>
Total Operating Revenues	\$ 3,845,261	\$ 57,679
Total Operating Expenses	<u>3,858,288</u>	<u>57,874</u>
Net Operating Income	(13,027)	(195)
Total Non-Operating Income (Expense)	<u>159,402</u>	<u>2,391</u>
Net Income	<u>\$ 146,375</u>	<u>\$ 2,196</u>

SALEM CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

SOUTH UTAH VALLEY SOLID WASTE DISTRICT (Continued)

- e. The joint venture has the following long-term debt:

	<u>Total</u> <u>Amount</u>	<u>Salem</u> <u>City's Share</u>
Closure and Post-Closure Liability	\$2,691,748	\$ 40,377
Accrued Compensated Absences	<u>157,219</u>	<u>2,358</u>
Total Long-Term Liabilities	<u>\$2,848,967</u>	<u>\$ 42,735</u>

- f. Audited financial statements for South Utah Valley Solid Waste District are available at the District's office.

Salem City and Elk Ridge City have entered into a joint venture for the construction and operation of a sewer plant. The operation costs are shared by them based on the number of REC's (Residential Equivalent Connections) for the year.

The sewer plant cost has been reflected in total in the Sewer Fund (an Enterprise Fund) of these financial statements.

**13. SERVICE REVENUE (GENERAL FUND) -
ADMINISTRATIVE EXPENSE (ENTERPRISE FUNDS)**

The General Fund revenue (charge for service) includes administrative service fees from the water fund, sewer fund, electric fund and the waste collection fund of \$92,000, \$73,000, \$135,000 and \$40,000 respectively.

14. NON-CASH ITEMS

Non-cash items from capital and related financing activities include contributions by subdividers to the water system of \$65,927 to the sewer system of \$61,193, and to the electric system of \$66,244.

Non-cash financing and investing transactions increased the equity in a joint venture by \$2,196.

15. RESTRICTED FUND BALANCES

General Fund

An amount is set aside for Impact Fees not yet expended	\$ 129,086
Unspent portion of "C" Road Funds	81,465
Wet land park donation	<u>10,852</u>
	<u>\$ 221,403</u>

SALEM CITY CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

16. OTHER DISCLOSURES

Accounting principles generally accepted in the United States of America require disclosure as part of the general purpose financial statements of certain information concerning individual funds including:

Fund Deficit

Fund Deficit at June 30, 2005 is as follows:

Data Processing - Internal Service Fund (\$185)

Excess of Expenditures Over Appropriations

Utah law requires that actual expenditures shall not exceed budgeted appropriations for any department fund. Actual expenditures for the Highway & Public Works Department in the General Fund exceeded budgeted expenditures by \$32,308. The general fund budget as a whole was under spent by \$108,434.

18. SEGMENT INFORMATION FOR INTERNAL SERVICE FUNDS

The City maintains Internal Service Funds which provide motor pool and data processing services. Selected unaudited information for these funds for the year ended June 30, 2005 is as follows:

	<u>Motor Pool</u>	<u>Data Processing</u>	<u>Total</u>
Operating Revenues	\$ 158,530	\$ 114,000	\$ 272,530
Depreciation and Amortization	(61,920)	(503)	(62,423)
Other Operating Expenses	(101,387)	(110,350)	(211,737)
Operating Income (Loss)	(4,777)	3,147	(1,630)
Non-Operating Revenue (Expense)	<u>1,164</u>	<u>0</u>	<u>1,164</u>
Net Increase (Decrease) in Retained Earnings	(\$ <u>3,613</u>)	\$ <u>3,147</u>	(\$ <u>466</u>)
Property & Equipment (Net of Depreciation)	\$141,198	\$ 0	\$141,198
Total Assets	141,198		141,198
Total Fund Equity	83,772	(185)	83,587

COMBINING AND INDIVIDUAL FUND STATEMENTS

SALEM CITY
Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2005

	Special Revenue Fund Municipal Building Authority	Permanent Fund Perpetual Care	Total Non-Major Governmental Fund
ASSETS			
Cash and cash equivalents	\$ 54,045	\$ 41,514	\$ 95,559
Interfund loans	-	19,500	19,500
Total assets	<u>54,045</u>	<u>61,014</u>	<u>115,059</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Deferred revenue	-	-	-
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances:			
Unreserved fund balance	54,045	61,014	115,059
Total fund balances	<u>54,045</u>	<u>61,014</u>	<u>115,059</u>
Total liabilities and fund balances	<u>\$ 54,045</u>	<u>\$ 61,014</u>	<u>\$ 115,059</u>

SALEM CITY

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances Non-Major Governmental Funds For the Year Ended June 30, 2005

	Special Revenue Municipal Building Authority	Permanent Fund Perpetual Care	Total Non-major Governmental Funds
REVENUES:			
Intergovernmental	\$ 65,200	\$ 873	\$ 66,073
Investment Earnings	1,218	549	1,767
Total	66,418	1,422	67,840
EXPENDITURES:			
Debt Service:			
Principal retirement	26,000	-	26,000
Interest and fiscal charges	38,913	-	38,913
Total	64,913	-	64,913
Excess of revenues over (under) expenditures	1,505	1,422	2,927
Net change in fund balance	1,505	1,422	2,927
Fund balances - begin	52,540	59,592	112,132
Fund balances - end	\$ 54,045	\$ 61,014	\$ 115,059

OTHER REPORTS

GILBERT & STEWART
CERTIFIED PUBLIC ACCOUNTANTS
A PROFESSIONAL CORPORATION

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

Honorable Mayor and City Council
Salem City Corporation
Salem, UT

November 15, 2005

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Salem City Corporation as of and for the year ended June 30, 2005, which collectively comprise the City of Salem's basic financial statements and have issued our report thereon dated November 15, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

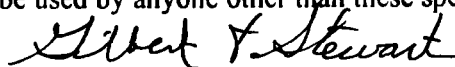
In planning and performing our audit, we considered the Salem City Corporation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Salem City Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

However, we noted certain immaterial instances of noncompliance that we have reported to management of Salem City Corporation in a separate letter dated November 15, 2005.

This report is intended solely for the information of management, Utah State Auditor and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



GILBERT & STEWART
Certified Public Accountants

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**INDEPENDENT AUDITOR'S REPORT
ON LEGAL COMPLIANCE WITH APPLICABLE
UTAH STATE LAWS AND REGULATIONS**

Honorable Mayor and City Council
Salem City Corporation
Salem, UT

November 15, 2005

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Salem City Corporation for the year ended June 30, 2005, and have issued our report thereon dated November 15, 2005. As part of our audit, we have audited Salem City Corporation's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; special tests and provisions applicable to each of its major State assistance programs as required by the State of Utah's Legal Compliance Audit Guide for the year ended June 30, 2005. The City received the following major state assistance programs from the State of Utah:

B & C Road Funds (Department of Transportation)
Liquor Law Enforcement (Utah State Tax Commission)

The City also received the following nonmajor grant which is not required to be audited for specific compliance requirements: (However, this program was subject to test work as part of the audit of the Salem City Corporation's financial statements.)

Emergency Medical Service (Health Department)

Our audit also included test work on the City's compliance with the following general compliance requirements identified in the State of Utah Legal Compliance Audit Guide:

Public Debt	Liquor Law Enforcement
Cash Management	B & C Road Funds
Purchasing Requirements	Other General Issues
Budgetary Compliance	Impact Fees
Truth in Taxation & Property	Asset Forfeiture
Tax Limitations	

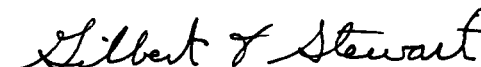
The management of the Salem City Corporation is responsible for the City's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed immaterial instances of noncompliance with the requirements referred to above, which are described in the accompanying management letter. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, the Salem City Corporation complied, in all material respects, with the general compliance requirements identified above and the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to each of its major state assistance programs for the year ended June 30, 2005.

This report is intended solely for the information of management and Utah State Auditor, and is not intended to be and should not be used by anyone other than these specified parties.



GILBERT & STEWART
Certified Public Accountants

SALEM CITY CORPORATION

MANAGEMENT LETTER

JUNE 30, 2005

GILBERT & STEWART
CERTIFIED PUBLIC ACCOUNTANTS
A PROFESSIONAL CORPORATION

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Honorable Mayor and City Council
Salem City Corporation
Salem, UT

November 15, 2005

We have audited the financial statements of Salem City Corporation for the year ended June 30, 2005 and have issued our report thereon dated November 15, 2005. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and *Government Auditing Standards*

As stated in our engagement letter dated August 22, 2005, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of Salem City Corporation. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control structure.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Salem City Corporation's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

This letter is issued as required by Statement on Auditing Standards No. 61, "Communications with audit committees", which requires auditors to determine that certain matters related to the conduct of an audit are communicated to those who have responsibility for the oversight of the financial reporting process.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The

significant accounting policies used by Salem City Corporation are described in Note 1 to the financial statements. No new accounting policies or procedures were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by Salem City Corporation during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Significant Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Salem City Corporation's financial reporting process. In our judgment, none of the adjustments we proposed whether recorded or unrecorded by the City, either individually or in the aggregate, indicate matters that could have a significant effect on the City's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

The following matters are items noticed during our audit which related to Utah State compliance issues:

Utah State Compliance Findings-Current Year

General Compliance Issues

Finding: The Data Processing Fund, an Internal Services Fund, has a deficit balance.

Recommendation: The City should increase the charges made by this fund for its services to not only cover the current expenses but also to eliminate the fund deficit.

City's Response: The charges for the Data Processing will be increased this year to eliminate the \$185 deficit.

Budgetary Compliance

Finding: The City exceeded its budget in the Highways and Public Works department.

Recommendation: We recommend the City stay within the approved budget for each department.

City's Response: The City agrees with this recommendation. The City over spent the budget for the Highway and Public Works department because we overlooked budgeting for the expenditure of B & C Road funds carried - over from the prior year.

Utah State Compliance Findings – Prior Year

General Compliance Issues

Finding: The Data Processing Fund, an Internal Services Fund, has a deficit balance.

Recommendation: The City should increase the charges made by this fund for its services to not only cover the current expenses but also to eliminate the fund deficit.

City's Response: The charges for the Data Processing will be increased this year to eliminate the \$3,332 deficit.

We thank you for the opportunity to serve the Salem City Corporation. City personnel were very helpful in providing required documentation and information during our audit. Management is providing information and services to the City in an efficient and competent manner. If you have any questions regarding the above information or our audit please call.

This information is intended solely for the use of the City Council and management, and is not intended and should not be used by anyone other than these specified parties.

Very truly yours,

GILBERT & STEWART
Certified Public Accountants